

DOING BUSINESS IN THE CZECH REPUBLIC

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1. ESTABLISHING AN ENTITY

Both natural individuals and legal entities may engage in business practice in the Czech Republic under one of the following available legal forms:

Generally, there is **no limitation on the level of foreign participation** in a Czech legal entity. Foreigners/foreign companies can establish both joint-ventures and wholly-owned subsidiaries in the Czech Republic.

The types of companies include a joint-stock company, a limited liability company, a limited partnership and an unlimited partnership.

Joint-stock and **limited liability companies** are the most commonly types used for business purposes; both of these legal forms must fulfil the minimum capital requirements.

A joint-stock company can be set up by one or more legal entities or individuals. The minimum registered capital requirement is CZK 2 million or EUR 80,000.

- A limited liability company can be set up by one or more legal entities or individuals. The minimum registered capital for a limited liability company is CZK 1.
- A restriction of so-called chaining of sole-member companies was cancelled as of 1.1.2014 (The chaining of sole-member companies is a situation if a limited liability company with a sole shareholder is the sole founder or sole shareholder of another limited liability company).

Besides companies, **business may be conducted by means of the following legal forms: a co-operative, a branch, a silent partnership, a European Company (Societas Europaea) and a European Economic Interest Grouping. Also an association could do business, but only within its secondary activity.**

A branch (of a legal entity) does not form a separate legal entity, and thus any actions by the branch are seen as actions of the entity registering the branch. A registered branch may generally undertake the same scope of business activities as a Czech legal entity.

The authorisation of a foreign entity to carry out business activities in the Czech Republic takes effect on the date that such an entity or its branch is registered in the Commercial Register and corresponds to the scope of business activities of such an entity or branch registered in the Commercial Register. Companies, co-operatives, as well as branches and foreign non-EU or non-EEA sole proprietors are required to be registered in the Commercial Register.

Prior to being registered in the Commercial Register, a Czech legal entity or a branch of a foreign entity must follow certain procedures which include, in particular, **obtaining a trade license or other business authorisation, appointing of statutory representatives, and, satisfying the minimum capital requirements** (if applicable).

Special authorisation may be needed to carry out activities in certain areas that are not governed by the general trade licensing regime. Such industries that are subject to regulation by special legislation include, inter alia, certain

financial services (such as banks, securities brokers, insurance companies, investment funds, investment companies/unit trusts, and pension funds), telecommunications, utilities, pharmaceuticals, broadcasting, gaming and employment mediation (recruitment, executive searches, etc.).

2. FOREIGN BUSINESS RESTRICTIONS

The Czech law, investment protection treaties and the Treaty establishing the European Community (in relation to EU Member States) guarantee the right to repatriate profits abroad.

Bilateral investment promotion and protection agreements have been signed with a wide range of countries. (a list of bilateral agreements is available at www.mfcr.cz).

3. INVESTMENT INCENTIVES

The system of investment incentives is incorporated in the Czech legal system. The Act on Investment Incentives (Act No. 72/2000 Coll.) was discussed with the European Commission and is in compliance with European regulations on state aid.

Businesses set up in the Czech Republic can also obtain financial support from EU structural funds.

Incentives listed in the Act on Investment Incentives

Tax incentive: Corporate tax relief for up to ten years for new companies, partial tax relief for up to ten years for existing companies (extension of production).

By fulfilling the minimum conditions specified by the Act, projects are supported in the form of corporate tax relief for a period of 10 years. Applicable for the manufacturing industry, technology centres and shared service centres. Not applicable in the Prague region.

The maximum limit of the investment incentives is 25% of the relevant costs (the acquisition price of assets purchased within the investment project or labour expenses in some cases).

Job creation grants: Financial support for the creation of new jobs (CZK 200,000 per employee). Available only in districts with unemployment rates at least 50% higher than the national average.

Training and retraining grants: Financial support for training and retraining new employees (a basic grant up to 25% of the total training and retraining costs), higher grants available for small and medium-sized companies and for the training and retraining of disabled employees. Available only in districts with unemployment rates at least 50% higher than the national average.

Site support: The transfer of public land at a discounted price.

Purchase of asset grants: Financial support for capital investment is only available for strategic investment projects up to 5% of the costs (in addition to the standard investment incentives); up to 7% for technology centres)

Note:

A new amendment to the Act on Investment Incentives has been prepared including more advantageous limits of grants (expected to be applied in 2015).

For more information see www.czechinvest.org or contact Mazars.

4. TAXATION

For 2015 three VAT rates are applied in the Czech Republic - the standard VAT rate (21%) and two reduced VAT rates (15% and 10%).

The 10% reduced VAT rate is applied to baby formula and children's food, defined medical devices, defined printed books, children's picture books and music sheets and food for people intolerant to gluten. The 15% reduced VAT rate is applied, for example, to foods, accommodation and selected medical/sanitary goods.

Corporate Tax Rates

Statutory	Surtax	Local	Effective	Branch Tax
19	--	--	19	19

Branches are taxed at the same rates as domestic companies. There is no branch remittance tax.

Dividend Withholding Tax Rate: 0 / 15 /35

Dividends paid to both residents and non-residents are subject to a final withholding tax of 15%, unless the rate is reduced under an applicable tax treaty. A special 35% rate is applicable to residents of states that are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or a contract for the exchange of tax information.

Under the EU Parent-Subsidiary Directive, dividends paid by a Czech company to a parent company (as defined in the directive) located in other EU Member States are exempt from withholding tax if the parent company holds at least 10% of the distributing company for an uninterrupted period of at least 12 months. As from 2009, the exemption applies to dividends paid to parent companies from Iceland, Norway and Switzerland. Further, dividends are exempt if paid to a parent company that:

- Is a tax resident in a non-EU country with which the Czech Republic has concluded a tax treaty;
- has a specific legal form;
- satisfies the conditions for exemption under the EU Parent-Subsidiary Directive;
- and is subject to home country tax similar to Czech income tax at a rate of at least 12%.

The exemption on dividends is not applicable if the subsidiary or the parent company:

- is exempt from corporate income tax or a similar tax;
- can choose exemption or a similar concession from corporate income tax or a similar tax;
- is subject to corporate income tax or a similar tax in the amount of 0%.

Royalties and Interest Withholding Tax Rate: 0 / 15 /35

A 15% withholding tax is imposed on interest paid to non-residents unless the rate is reduced under an applicable tax treaty or the payment is made to a qualifying associated company under the EU Interest and Royalties Directive. A special 35% rate is applicable to residents of states that are not EU tax residents or with which the Czech Republic has not concluded a double tax treaty or a contract for the exchange of tax information.

5. WORK PERMITS AND VISAS

Visa: EU citizens do not need a visa to enter the Czech Republic and stay there, however, if their stay exceeds thirty consecutive days, they have to register with the Czech Foreigner's Police. Non-EU citizens from particular countries may be obliged to apply for a visa before entering the Czech Republic and even if there might be no visa duty for visiting the Czech Republic for tourist purposes stipulated for the citizens of a particular non-EU/EEA country, in most cases they have to have the relevant visa in order to be entitled to work here.

Work permit: EU and EEA nationals do not need a work permit to work in the Czech Republic. Non-EU nationals generally need to obtain a work permit (with certain exemptions a spouse of an EU/EEA citizen, a holder of master's degree from a Czech university etc.). Nevertheless, the Czech has a reporting duty towards the Czech Labour office regarding the employment of foreigners entitled to work without a work permit. Such a report must be filed no later than on the date of the commencement of employment.

Residency permits: EU/EEA citizens have to register at the Foreigners Police if their stay in the Czech Republic exceeds thirty consecutive days. Alternatively, they can apply for a Residency Confirmation for a EU/EEA citizen, which is valid for longer validity. From the beginning of their stay in the Czech Republic non- EU/EEA citizens must have a short-term (up to 90 days of stay) or long-term (up to one year of stay) residency visa according to their purpose of stay, which is issued by a Czech embassy in the country of their residence or in certain cases by any Czech embassy. The long-term residency visa can subsequently be extended and converted into a long-term residency permit, issued by the Czech Ministry of Interior. Finally, a new document called an Employee Card, combining the work permit and residency visa/permit has been introduced by Czech legislation in 2014 to be used for most of the cases of employment of non-EU/EEA nationals in the future.

6. AUDIT AND ACCOUNTING

The area of accounting and the requirements of audits are governed in the Czech Republic by the **Act on Accounting** and the **implementing regulations**:

- Act on Accounting
- Order implementing the Act on Accounting for entrepreneurs using double-entry book-keeping
- Order on the implementation of the Act on Accounting for banks
- Order on the implementation of the Act on Accounting for insurance companies
- Order on the implementation of the Act on Accounting for health insurance companies

The obligation to keep accounts applies only to **accounting units**, including legal entities having a registered office in the Czech Republic, and foreign entities, if they are doing business in the Czech Republic or carrying on another activity under specific legislation. The **Czech Accounting Standards for entrepreneurs** specify the obligations of **accounting units**.

Certain companies are obliged to keep accounts and compile accounts that comply with **International Accounting Standards** (IAS). These are companies whose securities have been listed for trading on a regulated market in one of the EU Member States. A decision to use IAS for keeping accounts and compiling individual accounts may also be taken by accounting units in consolidation, as long as they use IAS for compiling consolidated accounts:

- International accounting standards IAS/IFRS ("Full IFRS")
- International accounting standards IAS/IFRS as adopted by the European Commission

Accounts consist of:

- a balance sheet,
- a profit and loss statement,
- an annexe explaining and supplementing the information contained in the balance sheet and the profit and loss statement.

A financial statement may also include an overview of cash-flows and changes to equity capital.

Financial statements are compiled as at the balance sheet date. Accounting units that are obliged to have their accounts verified by an auditor must also produce an **annual report**.

The financial statements and the annual report are published in the **Commercial Register**. Accounting units must archive financial statements and annual reports for at least ten years.

Under Czech law, all the **accounts** of the following accounting units must be verified by an auditor, unless specified otherwise:

- i. **joint stock companies**, if, at the end of the balance sheet date of the accounting period for which the accounts are being verified and the accounting period immediately prior to this, at least one of the three following criteria is exceeded or achieved:
 - o total assets of more than CZK 40,000,000,
 - o total net annual turnover of more than CZK 80,000,000,
 - o an average of more than 50 employees during the accounting period, calculated using the method laid down by specific legislation,
- ii. **other companies and cooperatives**, if, at the end of the balance sheet date of the accounting period for which the accounts are being verified and the accounting period immediately prior to this, at least two of the three criteria set out above are exceeded or achieved; for cooperatives an 'employee' shall also mean a member of the cooperative;
- iii. natural persons who fulfil the criteria applying to other companies and cooperatives;
- iv. accounting units having this obligation under specific legislation.

The performance of mandatory audits is governed in the Czech Republic by the **Act on Auditors**.

The **Council for the Public Supervision of Auditing** is the institution which supervises the Chamber of Auditors of the Czech Republic and the activities of auditors.

The verification of accounts is carried out in accordance with the **Code of Ethics** and the **International Standards of Auditing** (ISA) as modified by the European Commission and the standards issued by the Chamber of Auditors of the Czech Republic.

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